

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 PM-03 IO-10

SAM-01 SAB-01 /100 W

----- 093831

R 280726Z JUL 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5423

INFO AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

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E.O. 11652: N/A

TAGS: EINV EFIN EGJC EG

SUBJECT: INVESTMENT: DISCUSSIONS WITH NEW DEPUTY MINISTER OF
ECONOMY AND ECONOMIC COOPERATION

REF: CAIRO 4943

1. SUMMARY: FOREIGN INVESTOR PROBLEMS INCLUDING BUREAUCRATIC DELAYS
AND BEHAVIOR, FOREIGN EXCHANGE PROBLEMS AND RESTRICTIVE INVESTMENT
LAW WERE DISCUSSED WITH NEW DEPUTY MIN FOR ECONOMY/ECONOMIC COOPERA-
TION. DEPMIN DESCRIBED PLANNED REORGANISATION OF INVESTMENT AND
FREE ZONE AUTHORITY TO ENHANCE ITS DECISION-MAKING ROLE AND SPEED
INVESTMENT DECISIONS. FURTHER ASSURANCES WERE OFFERED ON EXCHANGE
RATE FOR REPATRIATION OF CAPITAL AND DIVIDENDS. LEGAL AND
TELECOMMUNICATIONS PROBLEMS FOR REGIONAL BUSINESS OFFICES IN
CAIRO WERE DISCUSSED.

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2. AREAS FOR IMPROVEMENT OF EGYPTIAN FOREIGN INVESTMENT CLIMATE IN

ACCORD WITH PRES SADAT'S "OPEN-DOOR POLICY" WERE DISCUSSED WITH NEW DEPUTY MIN ECONOMY AND ECONOMIC COOPERATION DR. AHMED EL GHANDOUR FOR ALMOST TWO HOURS BY COML OFF ON JULY 21. POINTS CONTAINED IN AMBASSADOR'S MAY MEMORANDUM TO PM SALEM CONCERNING INVESTMENT LAW WERE RAISED (SEE REFTEL). DISCUSSIONS ON EGYPTIAN INVESTMENT DECISION-MAKING PROCESS, FOREIGN EXCHANGE RATES AND ENCOURAGEMENT OF REGIONAL BUSINESS ACTIVITIES WERE PARTICULARLY NOTEWORTHY.

3. DECISION-MAKING PROCESS: COML OFF CITED BUREAUCRATIC PROBLEMS WHICH HAVE STALLED GOE DECISIONS ON MAJOR PROJECTS IN BANKING, MANUFACTURING, PETROCHEMICALS AND MINING. ONE BASIC PROBLEM SEEMS TO BE LONG DELAY IN MAJOR DECISIONS BY SENIOR GOE OFFICIALS BECAUSE OF LENGTHY CONSULTATION PROCEEDINGS WITH BOARDS OF DIRECTORS OR TECHNICAL COMMITTEES. DESPITE PROJECT MERITS AND ACCORDANCE WITH GOE POLICIES AND LAWS, THESE BOARDS AND COMMITTEES USUALLY ONLY MEET AFTER ALMOST ALL MEMBERS UNANIMOUS IN THEIR VIEWS BECAUSE PROJECT ADVOCATES DO NOT WISH TO BE LATER SUBJECT TO POSSIBLE CHARGES OF CORRUPTION FROM MEMBERS WHO OPPOSE PARTICULAR PROJECTS. PARTICULAR ATTENTION WAS FOCUSED ON NECESSITY FOR SPEEDY APPROVAL ALREADY NEGOTIATED AGREEMENTS IF INTEREST OF HIGHEST LEVEL DECISION-MAKERS IN MAJOR AMERICAN COMPANIES IS TO BE MAINTAINED IN EGYPT. COML OFF ALSO NOTED THAT, IF AMERICAN AND INTERNATIONAL BUSINESS COMMUNITIES GAIN IMPRESSIONS THAT BUREAUCRACY CAN STIFLE DECISION-MAKING APPARATUS, IT WILL BE DIFFICULT TO CHANGE THEIR ATTITUDES ABOUT ATTRACTIVENESS OF EGYPT FOR INVESTMENTS. ABU TARTUR PHOSPHATE PROJECT, UNION CARBIDE PETROCHEMICAL FEASIBILITY AGREEMENT AND LENGTHY DELAYS IN OPENING AMERICAN BANKS (ANNOUNCED JULY 1974) ARE PRIME EXAMPLES.

4. GHANDOUR, WHILE OBVIOUSLY NOT AWARE OF ALL EXAMPLES, RECOGNIZED IMPORTANCE OF SPEEDY DECISION FOR MAJOR PROJECTS AND HAS BEEN STUDYING INVESTMENT AND FREE ZONES AUTHORITY ROLE IN DECISION-MAKING. HE OBSERVED THAT AUTHORITY GENERALLY HAD BEEN AN INTER-MEDIARY BETWEEN CONCERNED PARTIES RATHER THAN DECISION-MAKER. REORGANIZATION OF AUTHORITY IS PLANNED TO ENHANCE DECISION-MAKING ROLE. IN THIS RESPECT, PLANS ARE MOVING FORWARD TO APPOINT GROUP OF INFLUENTIAL AND HIGHLY QUALIFIED EGYPTIAN TECHNICAL CONSULTANTS REPORTING DIRECTLY TO AUTHORITY ON INVESTMENT PROPOSALS. IN THIS WAY, GHANDOUR HOPED THAT AUTHORITY WOULD BECOME MORE AGGRESSIVE IN LIMITED OFFICIAL USE

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PROMOTING INVESTMENT PROPOSALS WITH CONCERNED MINISTER AND IN CABINET DISCUSSIONS.

COMMENT: IT REMAINS TO BE SEEN WHETHER THIS CONSULTANT PLAN, IF IMPLEMENTED, WILL JUST ADD ANOTHER STEP IN THE INVESTMENT APPROVAL PROCESS OR WHETHER IT WILL EXPEDITE DECISIONS. GHANDOUR'S PROPOSAL, HOWEVER, INDICATES GOE RECOGNITION OF INVESTOR PROBLEMS.

5. FOREIGN EXCHANGE RATES: GHANDOUR READILY ACKNOWLEDGED PROBLEMS CREATED FOR INVESTMENT AND PARTICULARLY JOINT VENTURES WITH LOCAL PARTNERS BECAUSE OF EGYPT'S SYSTEM OF MULTIPLE EXCHANGE RATES. GHANDOUR ARGUES WITH CONSIDERABLE CONVICTION AND REASONABLENESS THAT EGYPT MUST MAINTAIN SYSTEM OF MULTIPLE EXCHANGE RATES UNTIL THERE ARE ADJUSTMENTS IN EGYPTIAN PRICE LEVELS TOWARD WORLD MARKET PRICES AND RATIONALIZATION OF SUBSIDY PROGRAMS. THROUGHOUT DISCUSSION HE APPEARED THOROUGHLY FAMILIAR WITH SIMILAR IMF RECOMMENDATIONS, BUT HE DID NOT MENTION IMF. SPECIFIC PROBLEMS CONCERNING FOREIGN EXCHANGE RATES AND INVESTORS WERE DISCUSSED AS FOLLOWS:

A) REPATRIATION OF DIVIDENDS AND CAPITAL. RECENTLY, MINISTER OF FINANCE AND ECONOMY/ECONOMIC COOPERATION HAVE MADE STATEMENTS THAT BOTH IMPORTS OF CAPITAL AND REPATRIATION OF CAPITAL WOULD BE AT OFFICIAL EXCHANGE RATE. GHANDOUR INDICATED THAT FIRM GOVERNMENT DECISION HAD BEEN MADE ON "UNITARY RATE APPROACH TO FOREIGN INVESTMENT PROJECTS." COML OFF INDICATED THAT THESE MINISTERIAL STATEMENTS HAD BEEN WELCOMED BY SEVERAL FOREIGN INVESTORS, BUT MORE IMPORTANT QUESTION WAS RATE FOR DIVIDEND REPATRIATION. REPATRIATION OF CAPITAL IMPLIES LIQUIDATION AND NEW INVESTORS NATURALLY ARE MORE CONCERNED ABOUT REPATRIATING PROFITS. GHANDOUR INDICATED THAT PARTICULAR LANGUAGE USED BY MINISTERS UNFORTUNATE, BUT THEIR INTENT WAS TO INCLUDE REPATRIATION OF DIVIDENDS AT THE OFFICIAL EXCHANGE RATE AS WELL AS CAPITAL. HE PROMISED THAT CLARIFYING STATEMENT WOULD BE MADE SHORTLY.

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SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 IO-10 SAM-01

SAB-01 PM-03 /100 W

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R 280726Z JUL 75

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B) FOREIGN EXCHANGE RISK: COML OFF COMMENTED THAT, IN HIS OPINION, GREATEST DISINCENTIVE TO FOREIGN INVESTMENT IS LEGAL REQUIREMENT INVESTMENTS ENTER EGYPT AT OFFICIAL EXCHANGE RATE. THIS IMMEDIATELY SUBJECTS INVESTMENT TO MAJOR FOREIGN EXCHANGE RISK. IN EFFECT, EGYPT HAS THREE FOREIGN EXCHANGE RATES: OFFICIAL RATE (APPROXIMATELY LE 1 EQUALS DOLS 2.55), PARALLEL MARKET RATE (LE 1 EQUALS DOLS 1.69) AND FLUCTUATING BLACK MARKET RATE (WHERE CURRENTLY LE EQUALS APPROXIMATELY DOLS 1.25). INVESTORS MUST ANTICIPATE EVENTUAL DEVALUATION AND MUST FACTOR FOREIGN EXCHANGES LOSSES INTO THEIR CALCULATIONS. IT WAS SUGGESTED THAT USE OF PARALLEL MARKET RATE FOR INCOMING INVESTMENT WOULD GREATLY REDUCE FOREIGN EXCHANGE RISKS AND, AT SAME TIME, WOULD NOT MEAN ABANDONMENT OF PRESENT OFFICIAL EXCHANGE RATE. GHANDOUR DID NOT INDICATE HIS POSITION ON INCENTIVE EXCHANGE RATES FOR INVESTMENT, BUT INDICATED THAT GOE ACTIVELY COLLECTING INVESTOR COMMENTS AND COMPLAINTS ON INVESTMENT LAW FOR STUDY AND POSSIBLE AMENDMENT. HE STRESSED THAT ANY AMENDMENTS PROPOSED WOULD LIMITED OFFICIAL USE

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BE ADVANTAGEOUS TO FOREIGN INVESTORS AND EXPRESSED CONCERN THAT FREQUENT AMENDMENTS OF LAW COULD BE ADVERSE PSYCHOLOGICAL EFFECT ON FOREIGN INVESTMENT. COML OFF REPLIED THAT AMENDMENTS WHICH BENEFIT FOREIGN INVESTORS WOULD NOT BE MISINTERPRETED. EMPHASIS IN AMENDMENTS SHOULD BE TO SIMPLIFY LAW AND STRESS WHAT INVESTORS CAN DO RATHER THAN LIMITATIONS. BREVITY AND SIMPLICITY ARE GREAT ADVANTAGES BECAUSE BUREAUCRATIC INTERPRETATION IS NOT REQUIRED AT EVERY STEP. GHANDOUR COMMENTED THAT INVESTMENT LAW "ALREADY GUARANTEES MINIMUM BENEFITS FOR FOREIGN INVESTORS."

6. ENCOURAGEMENT OF REGIONAL BUSINESS: COML OFF INDICATED THAT MANY AMERICAN BUSINESSES HAVE CONSIDERED CAIRO AS A SITE FOR REGIONAL HEADQUARTERS. SOME FIRMS ARE OPENING CAIRO OFFICES, BUT A MUCH LARGER NUMBER HAVE SELECTED OTHER LOCALES BECAUSE OF LEGAL AMBIGUITIES AND TELECOMMUNICATIONS PROBLEMS AND OTHER CONSIDERATIONS. GHANDOUR PROMISED TO INVESTIGATE POSSIBILITY OF ENACTING LAW TO ENCOURAGE REGIONAL BUSINESS ACTIVITIES WHICH WOULD INCLUDE CUSTOMS AND TAX INCENTIVES BOTH FOR INDIVIDUALS AND BUSINESSES. COML OFF REFERRED TO COPIES OF OTHER COUNTRIES' REGIONAL BUSINESS LAWS WHICH HAVE BEEN SUBMITTED TO PRESENT MINISTER AND EARLIER TO TAHER AMIN. HE INDICATED THAT, IN HIS VIEW, KEY BOTTLENECK IN COMMUNICATIONS AREA WAS LACK OF FULLSCALE EARTH SATELLITE STATION. CONTRACT FOR CONSTRUCTION OF SUCH STATION WAS AWARDED TO NIPPON

ELECTRIC IN APRIL 1975 WITH COMPLETION IN 18 MONTHS. COML OFF
RELAYED RECENT REPORTS FROM GOOD SOURCES THAT THIS IMPORTANT PROJECT
BEING DELAYED BECAUSE EGYPTIANS HAVE NOT SELECTED SITE NOR AGREED
UPON FREQUENCIES AND ALSO WISH TO DO LARGE PART OF CIVIL CONSTRUCTION
OUTSIDE OF CONTRACT. GHANDOUR SAID THAT HE WAS AWARE OF
FREQUENT COMPLAINTS ABOUT TELECOMMUNICATIONS FACILITIES, BUT
THAT THIS WAS FIRST INDICATION EARTH STATION PROJECT MIGHT BE
DELAYED RATHER THAN BE COMPLETED ON SCHEDULE. HE SAID HE WOULD
IMMEDIATELY INVESTIAGE WITH MIN OF COMMUNICATIONS BECAUSE
"SPREAD EFFECTS OF THIS BOTTLE ARE INCALCULABLE".

7. COMMENT: GHANDOUR APPEARED TO BE A KNOWLEDGEABLE ECONOMIST
WHO IS WILLING TO TAKE FRESH LOOK AT MANY PROBLEMS. HE ALSO SEEMS
TO RECOGNIZE THAT THESE EFFORTS WILL NOT BE WELCOMED BY PUBLIC
SECTOR VESTED INTERESTS AND THAT HIS EFFORTS UNDOUBTEDLY WILL
CRATE OPPOSITION. HE IS ALSO CONCERNED WITH QUESTIONS OF REGIONAL
ECONOMIC INTEGRATION AND IS STRONG ADVOCATE OF ARAB JOINT VENTURE
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ENTERPRISES. FURTHER, HE PROMISED COOPERATION WITH THE EMBASSY
IN DEVELOPING SYSTEMATIC INFORMATION ON THE ACTIVITES OF VARIOUS
ARAB AND JOINT ARAB/EGYPTIAN INVESTMENT ORGANIZATIONS.
MAESTRONE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN EXCHANGE, ECONOMIC PROGRAMS, INVESTMENT CLIMAT, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: johnsorg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975CAIRO07337
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750259-0545
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750714/aaaaamav.tel
Line Count: 250
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 CAIRO 4943
Review Action: RELEASED, APPROVED
Review Authority: johnsorg
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 JUL 2003 by MartinML>; APPROVED <26 NOV 2003 by johnsorg>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INVESTMENT: DISCUSSIONS WITH NEW DEPUTY MINISTER OF ECONOMY AND ECONOMIC COOPERATION
TAGS: EINV, EFIN, EG
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006